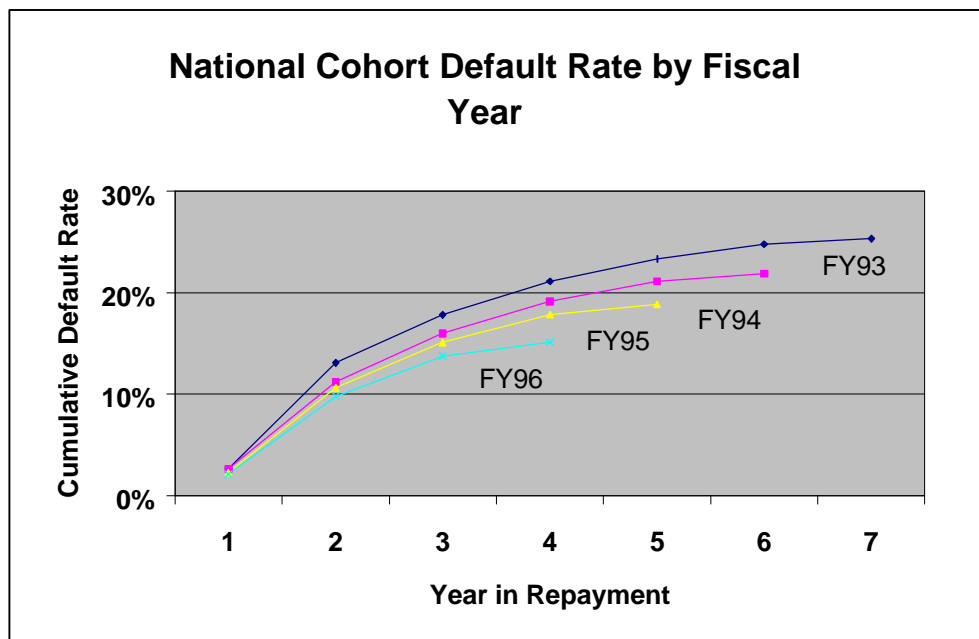


## Appendix F

### Defaults are Down But Still Important

Defaults are the single most costly part of student loans. Default rates among borrowers less than two years out of school rose to 22 percent in 1990. Since then, aided by a strong economy, our concerted efforts to improve collections and remove problem schools from the program have reduced the two-year default rate to less than ten percent. The same kind of decline is evident in life-of-loan default rates as shown on this chart.



### Life-of-Loan Default Rates on the Decline

While we continue to monitor the two-year default rate, we will renew efforts to reduce the cost of defaults further, this time taking a more comprehensive approach. We will expand our attention to cover the life of the loan, not just the first two years of a typically fifteen-year repayment period. And, recognizing that the default *rate* ignores the important differences between large and small loan balances and between those that are potentially recoverable and those that are not, we will begin focusing directly on the *cost* of defaults, and include it in our aggregate unit cost calculation.

